Verizon New England Inc.
d/b/a Verizon Massachusetts

Commonwealth of Massachusetts

D.T.E. 01-31

Respondent: Paula L. Brown
Title: Vice President-Regulatory

REQUEST: Department of Telecommunications and Energy, Set #2

DATED: May 24, 2001

ITEM: DTE 2-1 Is Verizon seeking classification as a "non-dominant" carrier?

REPLY: Department precedent has established an evolving regulatory framework for the telecommunications industry in Massachusetts. This question and Information Requests DTE-2-2 through 2-5 require Verizon MA to address the relationship between that precedent (and the terms used by the Department) and Verizon MA's proposal in this proceeding. Therefore, because the terms "non-dominant" and "sufficiently competitive" are regulatory terms of art that incorporate a number of Department policies with regard to the telecommunications industry, in answering these questions, it is necessary to review the Department's regulatory framework, as it has evolved over time.

In D.P.U. 1731, the Department established a regulatory framework for the telecommunications industry in which "dominant" carriers were subject to cost-based rate regulation and "non-dominant" carriers were able to set rates based on market factors and minimal supporting documents. D.P.U. 1731, at 62-63. In addition, for dominant carriers under traditional rate of return ("ROR") regulation, the Department permitted market-based rates for services found to be "sufficiently competitive," subject to certain cost-allocation rules. The Department's application of this framework has evolved over time, largely in proceedings involving AT&T.

In D.P.U. 91-79, the Department found that "sufficient market forces" would ensure that the majority of services offered by AT&T would be set at just and reasonable levels without rate regulation. In addition, the Department approved a cap on prices for services that were not

REPLY: DTE 2-1 (cont'd)

subject to sufficient market forces. D.P.U. 91-79, at 35, 44. In that case, the Department distinguished the term "sufficiently competitive" as it was first used in D.P.U. 1731, with its application in D.P.U. 91-79. The Department stated that the classification of "sufficiently competitive" was intended to be "the Department's classification for services offered by ROR-regulated telecommunications carriers for which prices set by the market are fair and reasonable." D.P.U. 91-79, at 46. It distinguished the nomenclature used for AT&T's so-called Category M services and eliminated the cost-allocation requirement for those services because AT&T was no longer subject to ROR regulation.

In this case, Verizon MA contends that the presence of competitive markets for its services justifies the degree of pricing flexibility proposed for its alternative form of regulation. Indeed, the existing level of competition in Massachusetts could support a finding that Verizon MA be reclassified as a non-dominant carrier, but it has not requested such a finding. Instead, similar to the AT&T proceeding in 1991, Verizon MA is requesting that many of its services be permitted full pricing flexibility (similar to AT&T's Category M) and that the prices for other services be capped and subject to other restrictions (similar to AT&T's Category D).

Paragraphs A through I of the Plan establish price rules for those services that are not subject only to market-based pricing. These services are listed in Appendix A of the Plan, pages 1 through 3. Under Paragraph J of the Plan, Verizon MA proposes that the rates and charges for certain retail intrastate services be allowed to increase or decrease in response to market conditions, at the discretion of the Company. The existing services subject to Paragraph J of the Plan are listed on Appendix A of the Plan, pages 4 through 6. In addition, the Plan also proposes that any new services introduced by the Company be subject to Paragraph J.

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Respondent: Paula L. Brown
Title: Vice President-Regulatory

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DATED: May 24, 2001

ITEM: DTE 2-2 If Verizon is not seeking classification as a "non-dominant" carrier, is Verizon seeking classification of certain services as "sufficiently competitive"? If so, which services is Verizon seeking to have so classified?

REPLY: See Verizon MA's response to Information Request DTE 2-1.

Verizon New England Inc.
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Commonwealth of Massachusetts

D.T.E. 01-31

Respondent: Paula L. Brown
Title: Vice President-Regulatory

REQUEST: Department of Telecommunications and Energy, Set #2

DATED: May 24, 2001

ITEM: DTE 2-3 If Verizon is not seeking classification as a "non-dominant" carrier or classification of certain services as "sufficiently competitive", is Verizon proposing that the Department substitute its existing precedent established in D.P.U. 1731 and related cases with an alternative standard of review?

REPLY: See Verizon MA's response to Information Request DTE 2-1.

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D.T.E. 01-31

Respondent: Paula L. Brown
Title: Vice President-Regulatory

REQUEST: Department of Telecommunications and Energy, Set #2

DATED: May 24, 2001

ITEM: DTE 2-4 If Verizon is proposing that the Department substitute its existing precedent, what is the standard of review proposed by Verizon? Provide supporting authority from other jurisdictions if available.

REPLY: See Verizon MA's response to Information Request DTE 2-1.

Verizon New England Inc.
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Commonwealth of Massachusetts

D.T.E. 01-31

Respondent: Paula L. Brown
Title: Vice President-Regulatory

REQUEST: Department of Telecommunications and Energy, Set #2

DATED: May 24, 2001

ITEM: DTE 2-5 Please explain the nexus, if any, between the standard of review proposed by Verizon, if different from Department precedent, and Department precedent.

REPLY: See Verizon MA's response to Information Request DTE 2-1.

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Commonwealth of Massachusetts

D.T.E. 01-31

Respondent: Paula L. Brown
Title: Vice President-Regulatory

REQUEST: Department of Telecommunications and Energy, Set #2

DATED: May 24, 2001

ITEM: DTE 2-6 Please produce all retail price plans or "alternative regulation" plans proposed by Verizon (including the former Bell Atlantic and GTE) in any state in the last two (2) years.

REPLY: Verizon's proposals for Maine, Vermont, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Virginia and South Carolina are attached.

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D.T.E. 01-31

Respondent: Paula L Brown
Title: Vice President- Regulatory

REQUEST: Department of Telecommunications and Energy, Set #2

DATED: May 24, 2001

ITEM: DTE 2-7 Has any state adopted a retail price plan or "alternative regulation" plan similar to that proposed by Verizon for its Massachusetts' operations? If so, please produce the retail price plan(s) or "alternative regulation" plan(s) as adopted.

REPLY: The alternative regulation plans vary within each State that Verizon conducts business. Vermont, Maine, Connecticut, and Virginia have approved plans with certain similar features. Some of the key components of each plan, copies of which are attached, are identified below.

Verizon Vermont
The Vermont Board approved Verizon Vermont's Alternative Regulation Plan on 3/24/2000. Components of the plan include:

- No pricing indices i.e., productivity index.
- Competitive services are not subject to the plan.
- New products and services and special contracts have market-based pricing subject only to a price floor test.
- Revenue-neutral restructuring of a regulated intrastate service is permitted.
- Exogenous events may be offset.
- Service quality plan exists.

REPLY: DTE 2-7 (cont'd)

Verizon Maine

In Maine, the Commission approved an alternative regulation plan at its open meeting on 5/9/2001, but the order detailing its ruling has not been released at this time. Approved components of the plan include:

- No pricing indices i.e., productivity index.
- Reductions in switched access rates with basic exchange offsets.
- After switched access offsets occur, basic exchange rates will be capped for term of plan subject to changes for exogenous events.
- VZ ME may seek pricing flexibility for multi-line business customers (10+ lines) in specified exchanges if effective competition exists.
- Full pricing flexibility for essentially all other retail services.
- Service quality plan exists.

Verizon Connecticut

In Connecticut, the commission approved an alternative regulation plan on 1/31/2001. Approved components of the plan include:

- No pricing indices i.e., productivity index.
- Services are classified as competitive, noncompetitive and emerging competitive.
- Pricing flexibility via minimum/maximum pricing rates.
- Revenue neutral rate restructurings and rate reductions for all services are permitted.
- Customer specific pricing is permitted.
- Cap residential rates.
- Exogenous changes allowed.
- Service quality plan exists.

Verizon Virginia (formerly BA-Virginia)

The Virginia Commission approved modifications to Verizon Virginia's Alternative Regulation Plan on 5/15/2001. Components of the plan include:

- No pricing indices related to overall revenues i.e., productivity index.
- Services are classified as basic local exchange telephone services (BLETS), discretionary, competitive, and bundled. Pricing rules vary for each classification (e.g., competitive services must pass price floor only).

REPLY: DTE 2-7 (cont'd)

- BLETS capped until 1/1/2004; prices may be increased by ½ GDPI thereafter.
- Revenue neutral price changes are permitted.
- Individual case pricing is permitted.
- Service quality plan exists.

<u>Verizon South (formerly GTE)</u>

- The Virginia Commission approved Verizon South's Alternative Regulation Plan on 12/21/2000. The Virginia South plan is based upon Verizon Virginia's plan.

Verizon New England Inc.
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Commonwealth of Massachusetts

D.T.E. 01-31

Respondent: Robert Mudge
Title: President Verizon MA

REQUEST: Department of Telecommunications and Energy, Set #2

DATED: May 24, 2001

ITEM: DTE 2-8 See p. 8, lines 11-17: Verizon's expansion of infrastructure (e.g., interconnection trunks) is described in terms of its benefit to CLECs. Is it possible for Verizon itself to utilize the additional infrastructure, with modification or without modification?

REPLY: There are two basic types of infrastructure that Verizon MA has built to accommodate CLEC growth: trunking and interoffice facilities (IOF). Trunking infrastructure is the switching equipment Verizon MA added to either its tandem or local switches that provide the actual trunk connections. IOF is the fiber cable and associated electronic transmission equipment placed between one Verizon MA Central Office and another or between a Verizon Central Office and a CLEC's interconnection point or POP.

Typically, trunk connections can be used either for Verizon MA interoffice trunks or for interconnection with CLECs. Once installed in the switch, trunk connections can be used for either application without modification.

IOF facilities are established to carry traffic between two points (or around a ring structure). IOF facilities support several types of services and once provisioned, the facility (or capacity) is usually dedicated to that specific service. IOF facilities between two points, however, can generally accommodate several types of service with minimal or no modification.

The infrastructure built by Verizon MA over the past several years to

Reply: DTE 2-8
(cont'd)

accommodate CLEC demand could, theoretically, be used by Verizon MA for its own use if it were not needed by the CLECs. However, in practical terms, these infrastructure investments have added trunking and IOF capacity in quantities and in locations that may not be of use to Verizon MA. For example, if trunk connections added in a certain office to meet a CLEC's request were no longer needed by the CLEC, the equipment would be of value to Verizon MA only if the Company had a similar need for trunking in the same location. If Verizon MA had no such need, the investment would be stranded. Likewise, if IOF provided between two points to meet CLEC demand were no longer needed by the CLEC, it would be utilized by Verizon MA only if the Company had a need to carry traffic along the same route. Over the past several years Verizon MA has invested in certain infrastructure to specifically meet CLEC demand. Without that demand, Verizon MA would have little practical (or immediate) use for that same infrastructure.

Verizon New England Inc.
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Commonwealth of Massachusetts

D.T.E. 01-31

Respondent: Robert Mudge
Title: President Verizon MA

REQUEST: Department of Telecommunications and Energy, Set #2

DATED: May 24, 2001

ITEM: DTE 2-9

See pp. 9-10: According to Mr. Mudge's testimony, the resale market "has been active for quite some time" with every exchange served by a minimum of one reseller. Further, Mr. Mudge states that resellers serve 15-30 percent of business lines in exchanges statewide. Please provide complete and detailed documentation in support of these statements about the resale market.

REPLY:

Verizon considers certain data responsive to this request proprietary and competitively sensitive. That data will be made available to the extent provided for in a mutually agreeable Protective Agreement.

Resellers have been active in Massachusetts beginning as early as six years ago. Verizon MA executed interim resale agreements in 1995 and its first resale interconnection agreement under the Telecommunications Act in 1996.

The attachment to the Company's response to DTE 1-2 demonstrates the presence of resellers in every Central Office across the state.

With regard to resellers serving 15 to 30 percent of the business lines in exchanges across the state, the testimony states: "[S]tatewide, Resellers serve about 15 percent of the number of business lines served by Verizon MA… And the focus is not just large cities. In several of our smaller central offices, Resellers serve over 20 percent of the number of business lines served by Verizon MA. In several exchanges, that figure exceeds 30%." Pages 9-10 at 19-1. The

Reply: DTE 2-9 (cont'd**)**

attached table provides January 2001 data that support these statements. It shows the number of resold business lines, on a central office basis, and the percentage of resold lines to Verizon MA retail business lines. It further includes a list of the 54 resellers who had installed lines in January.

Verizon New England Inc.
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Commonwealth of Massachusetts

D.T.E. 01-31

Respondent: Robert Mudge
Title: President Verizon MA

REQUEST: Department of Telecommunications and Energy, Set #2

DATED: May 24, 2001

ITEM: DTE 2-10 See p. 16, lines 15-17: Please provide complete and detailed documentation, including the business-residential proportion, in support of the statement that "approximately 36 percent of customers currently use a carrier other than Verizon MA for their intraLATA calling."

REPLY: As stated in the Company's response to DTE 1-4, Part 1, the correct value for lines served by competitive intraLATA providers is 29%. The following table provides the data for the market in total and split between residence and business services.

January 2001	**Residence**	**Business**	**Total**
Total Access Lines			
Retail Lines	2,797,700	1,526,200	4,323,900
Competitive Lines	184,800	666,200	851,000
Total Access Lines	2,982,500	2,192,400	5,174,900
Competitive IntraLATA			
Pre-subscribed Retail Lines	425,700	211,200	636,900
Competitive Lines	184,800	666,200	851,000
Total Lines Served (by another intraLATA provider)	610,500	877,400	1,487,900
Percent of Market Served by an Alternate IntraLATA Provider	20.5%	40.0%	28.8%

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D.T.E. 01-31

Respondent: Robert Mudge
Title: President Verizon MA

REQUEST: Department of Telecommunications and Energy, Set #2

DATED: May 24, 2001

ITEM: DTE 2-11 See p. 17, lines 3-4: Please provide complete and detailed documentation, including the business-residential proportion, in support of the statement that "competing carriers already serve almost 20 percent of the number of lines served by Verizon MA."

REPLY: The data in the following table show that competing carriers serve almost 20 percent of the number of lines served by Verizon MA. It further provides a breakdown between residence and business services. (*The split of E911 listings between residence and business is not available for January. The values below were determined by applying a more current residence/business split to the total number of listings for January.)

MA Access Lines (Jan. 2001)	**Residence**	**Business**	**Total**
Retail	2,797,700	1,526,200	4,323,900
Resale	32,000	237,000	269,000
% (compared to Verizon)	1.1%	15.5%	6.2%
UNE-P	9,800	17,500	27,300
% (compared to Verizon)	0.4%	1.1%	0.6%
Facility Based (E911*)	143,000	411,700	554,700
% (compared to Verizon)	5.1%	27.0%	12.8%
Total Competitive	184,800	666,200	851,000
% (compared to Verizon)	6.6%	43.7%	**19.7%**

Verizon New England Inc.
d/b/a Verizon Massachusetts

Commonwealth of Massachusetts

D.T.E. 01-31

Respondent: William E. Taylor
Title: Senior Vice President, NERA

REQUEST: Department of Telecommunications and Energy, Set #2

DATED: May 24, 2001

ITEM: DTE 2-12 See p. 3, lines 18-20: According to Dr. Taylor's testimony, "For business retail services not covered by the cap, prices would increase or decrease in response to the market on a 30-day notice, at the Company's discretion, subject to the appropriate price floor rules." What is meant by "the appropriate price floor rules," in the context of a new regulatory framework?

REPLY: The price floor rules referred to by Dr. Taylor are the rules in effect as a result of the Department's decision in docket D.T.E. 94-185.

Verizon New England Inc.
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D.T.E. 01-31

Respondent: William E. Taylor
Title: Senior Vice President, NERA

REQUEST: Department of Telecommunications and Energy, Set #2

DATED: May 24, 2001

ITEM: DTE 2-13 See p. 9, lines 4-6: According to Dr. Taylor's testimony, "Competitors have access to 97.8 per cent of Massachusetts residence customers and 98.8 percent of Massachusetts business customers through collocation." Please explain what is meant by "access" and "collocation" in the above quote, and explain how the statement justifies its paragraph heading, *The potential for rapid further entry exists.*

REPLY: To be collocated in a central office means a competitor has *access* to the customers served from that central office.

Collocation means that a competitor has access to central office cross connect points that may serve as a point of interconnection for the exchange of traffic with the Company, or for the purposes of accessing unbundled network elements in those Company central offices.

The reference to "potential for rapid further entry" means that collocated competitors are ready and able to serve the Massachusetts customers to which they have access.

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D.T.E. 01-31

Respondent: William E. Taylor
Title: Senior Vice President, NERA

REQUEST: Department of Telecommunications and Energy, Set #2

DATED: May 24, 2001

ITEM: DTE 2-14

See p. 10, line 21 and n.24: Dr. Taylor states that "facilities-based competitors have access to almost all Massachusetts end-users," to which a footnote adds, "Verizon data as of January 31, 2001 show that competitors have collocation in wire centers serving 98.2 percent of all access lines in Massachusetts." Please explain how the quote and footnote either complement or contradict the information about competition presented on page 9 of Dr. Taylor's testimony, and queried in the previous question.

REPLY:

The footnote complements the information referred to on page 9 of Dr. Taylor's testimony. Data on page 9 shows individual values for the percent of residence and business customers served by central offices in which competitors are collocated. The value 98.2% referred to on page 10 is a measure of the overall average residence and business customers to which competitors have access via their collocation facilities in Verizon's central offices.

Verizon New England Inc.
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D.T.E. 01-31

Respondent: Paula L. Brown
Title: Vice President Regulatory

REQUEST: Department of Telecommunications and Energy, Set #2

DATED: May 24, 2001

ITEM: DTE 2-15 See Verizon response to DTE 1-11: Does Verizon's response to this Information Request incorporate the "market own-price elasticity for intraLATA toll of -0.30," which Verizon used in its response to DTE 1-10? If not, please recalculate the $1.44 increase to the residence Dial Tone Line using the aforementioned elasticity.

REPLY: Verizon's response to DTE 1-11 did not incorporate the "market own-price elasticity for intraLATA toll of –0.30".

A recalculation of response to DTE 1-11 utilizing the aforementioned elasticity produces an increase of $1.10 to the residence Dial Tone Line. A copy of that recalculation is attached.